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SUBJECT: ENERGY DIVERSITY IN FINLAND AND WHAT IT CAN OFFER

REF: A. MOSCOW 5869 B. BRUSSELS 790

11. (SBU) Summary: Finland has the EU's longest border with Russia and the two maintain a complex and long-standing energy relationship. While energy security is a concern for every country, Finland's somewhat unique position makes it very unlikely to suffer disruptions to its Russia-sourced energy supplies for a variety of reasons: Finland's status as a mature market; the diversity of its supply sources, including a robust nuclear program; Russia's need for trade with a stable market; Finland's own technological prowess; and the GOF's long-standing ability to manage effectively its political relations with Moscow. Although it enjoys this relatively safe bilateral position vis-a-vis Russia, Finland can still act as an important partner to the U.S. as we seek to establish a shared agenda for energy cooperation with Europe. The GOF can serve as a helpful ally in the effort to transform Russia into a more reliable energy supplier that understands the advantages of submitting to accepted regulatory standards and playing according to free market rules. End Summary

Energy Circumstances and Future Projections

12. (SBU) Finland has the third highest per capita energy consumption in the world, after the U.S. and Canada. This is due mostly to long transport routes, a long heating season and several energy-intensive industries. These realities have forced Finland to diversify its fuel sources to include oil, wood biomass, natural gas, coal and peat. Nevertheless, despite this domestic diversity, Finland imports nearly one fifth of its electricity, and virtually all of this is from Russia. Finland is part of the Norway-Sweden-Finland Nordic Grid but its partners have little if any spare capacity for export. Later this year Finland will link to Estonia, which has spare capacity.

13. (SBU) Likewise, gas is used by industry and utilities and accounts for around ten percent of power generation. It is concentrated in the industrial south, and Russia is the sole supplier. Finland is building a submarine pipeline to connect to Estonia and Latvia. Both are dependent on Russia for supplies; however Latvia has storage capability and this would give Finland some flexibility. Finland leapt into the nuclear age in the late 1970s and early 1980s, building four nuclear power plants (NPPs) during that period. With other power sources either at capacity or with questions over expansion, nuclear is clearly Finland's option for the future.

14. (SBU) Increasingly, nuclear energy fills the domestic gaps. Finland is one of the most "pro-nuclear" countries in Europe, and the use of nuclear power is growing. This diversity provides a buffer, should power source supplies

be disrupted suddenly or market prices vary. However, Finland's energy demand is growing steadily at 4% per year, and many sources are at maximum or near maximum usage, leaving nuclear power as the sole domestic alternative for growth.

Russia as an Energy Supplier

¶4. (SBU) Russia (including the Soviet Union) has always been a reliable supplier to Finland. Finland has its own direct supply infrastructure for importing gas and electricity, and was therefore unaffected last winter when Russia interrupted supplies to Ukraine and (indirectly) to Central and Eastern Europe. The Finns were not blind to the potential concerns engendered by those developments, and certainly understand that Moscow has the potential to play politics with fuel supplies. However, the GOF and the Finnish private sector are also very confident in their ability to "manage" their huge neighbor to the east. As Prime Minister Matti Vanhanen recently stated publicly, the GOF is not worried about its energy relationship with Russia because, "Russia has the fuel we need. We have money that they need. It's a business relationship, and to us it's sound."

¶5. (SBU) During the Cold War, the Soviet Union was the sole supplier of oil to Finland, paid for through a centrally planned barter trade system. Following the Soviet collapse, oil supplies temporarily disappeared and Finland turned to the North Sea and Saudi Arabia. Finland now buys according to price, and the low transport costs mean that it currently gets about 80% of its oil from Russia. Finland imports 100 percent of its gas from Russia, makes rational use of it (industrial use in a concentrated area), and the price is good. Gazprom has gone downstream and owns 20 percent of Finland's gas distribution network -- something the Finns view as positive, because (as Embassy Moscow suggested in Reftel A) it places at least that portion of Gazprom's operations under the eye of Finnish and European regulators. Finland is importing about 14% of its electricity from Russia (and 3% from Sweden-Norway). The need to import is due to the deficit in Finland's own generating capacity. The fifth Finnish NPP currently under construction will approximately offset the deficit.

COMMENT

¶6. (SBU) For both practical and political reasons, energy independence is not something the Finns will pursue. During her June 14 visit to St. Petersburg, President Tarja Halonen lauded Finnish-Russian "energy interdependence" as a crucial and positive element of the two countries' bilateral relationship. Having diversified its own energy use and managed Moscow well, Finland is in a safe position to make such claims. This said, the GOF can still serve as an important and helpful ally to the US as we seek to establish a shared energy security agenda with Russia that focuses on transforming Russia into a more reliable energy supplier. Although unlikely to be a victim of Russian antics, Finland will always oppose any Russian efforts to use energy policy for political purposes. Moreover, because it is clearly in Finland's interests, the GOF sees the importance of helping Moscow understand that submitting to global regulatory standards and playing according to free market rules is in Russia's long-term best interest.

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